

Message Text

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PAGE 01 CANBER 00718 300604Z

13-12

ACTION EA-09

INFO OCT-01 EUR-12 IO-11 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 PRS-01 PA-01 /107 W

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R 300500Z JAN 76

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 7375

INFO AMCONSUL BRISBANE

USMISSION MTN GENEVA

USMISSION OECD PARIS

AMCONSUL PERTH

AMCONSUL MELBOURNE

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

LIMITED OFFICIAL USE CANBERRA 718

E.O. 11652: N/A

TAGS: EFIN, AS

SUBJ: GOA INTRODUCES NEW MONETARY PACKAGE

REF: CANBERRA A-004

BEGIN UNCLASSIFIED

1. ON JANUARY 22 THE TREASURER, MR. LYNCH, AND GOVERNOR OF RESERVE BANK OF AUSTRALIA, MR. KNIGHT, ANNOUNCED A WIDE-RANGING MONETARY PACKAGE DESIGNED REDUCE LIQUIDITY AND GROWTH RATE OF MONEY SUPPLY, FINANCE DEFICIT AND HELP COMBAT INFLATION.

2. RESERVE BANK ANNOUNCED THAT INTEREST RATES ON OVER-
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PAGE 02 CANBER 00718 300604Z

DRAFTS, SAVINGS BANK LOANS, TERM AND FARM DEVELOPMENT

LOANS WOULD BE REDUCED FROM MAXIMUM OF 11.5 PCT. TO 10.5 PCT. FOR LOANS OF UP TO \$A100,000 (ALL FIGURES IN AUSTRALIAN DOLLARS AT\$A1.00 EQUALS \$US1.26). PERSONAL LOAN INTEREST RATE MAXIMUM REDUCED FROM 8.25 PCT. (FLAT) TO 7.75 PCT. (FLAT) RESERVE BANK ALSO ANNOUNCED THAT LGS (LIQUID ASSETS AND GOVERNMENT SECURITIES) RATIO OF TRADING BANKS INCREASED FROM 18 TO 23 PCT. THUS FREEZING \$775 MILLION IN LIQUIDITY.

3. AS PREDICATED IN CANBERRA A-004 TRESURER ALSO ANNOUNCED EARLY ISSUE JANUARY 29) OF COMMONWEALTH CASH AND CONVERSIONS LOAN WITH NEW 18 YEAR ISSUE (FEBRUARY 1994) AT 10.2 PCT. OTHER MATURITIES UNCHANGED FROM PREVIOUS ISSUES AT 8.5 PCT., FEBRUARY 1978; 9.3 PCT., JULY 1980; 10 PCT. JULY 1986.

4. IN A MOVE CLEARLY AIMED AT "HOUSEHOLD SAVINGS" AREA TREASURER ANNOUNCED NEW "AUSTRALIAN SAVINGS BONDS" WHICH CARRY FIXED INTEREST RATE OF 10.5 PCT. FOR A MAXIMUM OF SEVEN YEARS FROM DATE OF ISSUE. BONDS CAN BE REDEEMED UPON ONE MONTH NOTICE, ALTHOUGH THOSE REDEEMED PRIOR FIRST HALF-YEARLY INTEREST PAYMENT WILL DRAW ONLY 8.5 PCT. NEW BOND DESIGNED REPLACE "SPECIAL BONDS", WHICH DUE THEIR COMPLEXITY HAD FAILED REACH HOPED-FOR SMALL-INVESTOR TARGET GROUP. MINIMUM HOLDING IS \$20 AND MAXIMUM IS \$100,000 OF NEW AND SPECIAL BONDS, WHILE FORMER MAXIMUM FOR SPECIALS WAS \$50,000.

5. TREASURER ALSO ANNOUNCED THAT FOLLOWING GENERAL DECLINE IN INTEREST RATES ON PRIVATE SECTOR SHORT-TERM SECURITIES SINCE LAST ADJUSTMENT TO TREASURY NOTE YIELDS IN AUGUST 1975, ISSUE PRICE OF 13-WEEK TREASURY NOTE WOULD BE INCREASED TO 98.29 PCT AND YIELD TO MATURITY REDUCED FROM U.186 PCT. TO 6.978 PCT. ISSUE PRICE FOR 26-WEEK NOTES WILL BE 96.51 PCT AND YIELD REDUCED FROM 7.468 TO 7.252 PCT.

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PAGE 03 CANBER 00718 300604Z

6. COMMENT: ONE REASON WHY GOVERNMENT USED INFREQUENTLY USED CHANGE IN LGS RATIO (WHICH HAS NOT BEEN CHANGED SINCE 1962) INSTEAD OF A NEW CALL TO STATUTORY RESERVE DEPOSITS (SRD) IS TO INSURE HEAVY SUBSCRIPTION NEWEST COMMONWEALTH CASH AND CONVERSION LOAN. NEW AUSTRALIAN SAVINGS BONDS WILL PROVIDE COMPETITION TO BANK TERM AND PERMANENT BUILDING SOCIETY DEPOSITS. 10.5 PCT. RATE IS FULL 2 PCT. HIGHER THAN

RATE CURRENTLY OFFERED BY THESE INSTITUTIONS. ON OTHER
HAND, AT LEAST TWO BANKS FARED WITH REDUCTIONS IN OVER-
DRAFT CHARGES HAVE ALREADY ANNOUNCED REDUCTIONS IN
DEPOSIT RATES AND OTHER BANKS EXPECTED FOLLOW SUIT.
REACTION OF THIS GROUP HAS BEEN ONE OF SURPRISE THAT
SUCH ACTION FORTHCOMING FROM L/NCP GOVERNMENT. DESPITE
WHAT MAY BE SEEMING INTENT OF IMMEDIATE LOWERING OF
OVERDRAFT RATES, EMBASSY BASICALLY AGREES WITH WELL
REASONED ARGUMENTS OF LEADING AUSTRALIAN FINANCIAL
REVIEW ANALYST P.P. MCGUINNESS THAT THE "CHANGE IN
THE STANCE OF MONETARY POLICY IS INTENDED TO, AND MUST
PRODUCE A RISE IN AVERAGE COST OF BORROWING THROUGHOUT
FINANCIAL STRUCTURE". ALTHOUGH IT MAY PERHAPS BE CLEAR WHAT
"INTENT" MAY BE, IT IS STILL TOO EARLY TO PREDICT SHAPE
FINAL RESULTS.
PERCIVAL

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Message Attributes

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TAGS: EFIN, AS
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